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NORTHERN ALBERTA
DEVELOPMENT COUNCIL

Advancing

THE DEVELOPMENT OF THE NORTHERN ECONOMY

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Identification of Northwest Transportation Grain Handling and Transportation Issues Alberta Peace Region

A Northern Alberta Development Council
Issue Paper

Issue Paper on the:
Identification of Grain Handling and Transportation Issues

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Alberta
NORTHERN ALBERTA DEVELOPMENT COUNCIL

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Introduction

Advancing the Development of the Northern Economy

The Northern Alberta Development Council (NADC) is a regional development council of and for northern Albertans. The NADC reports to the cabinet through Premier Klein. Mike Cardinal, MLA for Athabasca-Wabasca, chairs the Council. The mission of the NADC is to advance northern development through regional initiatives in partnership with the private sector and community-based organizations.

The Northern Alberta Development Council since 1995 has been reviewing transportation issues in the Peace region. Several research reports have been completed. Participants at our conferences and smaller focus groups have reviewed the research, identified issues and potential solutions.

Purpose of this Paper

This issue paper was prepared for submission to the Grain Review Secretariat established by the Federal Government. The paper summarizes the key issues concerning how the grain handling and transportation system affects the Peace Region. These issues were bought to the attention of Council by northern producers and other stakeholders. This paper also includes two recommendations that we would like the Grain Review Secretariat to consider.

Grain Review Secretariat

The Secretariat will look at all aspects of the grain handling and transportation system, including investigations of institutional, legislative, regulatory, physical and operational issues. The goal of the review is to develop:

- recommendations that will ensure that Canada has an efficient, viable and competitive grain handling and transportation system, and
- an environment for the establishment of clear roles, responsibilities and accountabilities for all system participants.

Issues - Alberta's Peace Region

Common Concerns Affecting all Sectors

The following are key commodity handling and transportation issues of concern to shippers of all commodities produced in northwestern Alberta:

- Transportation and handling of commodities consume too much of the value of the commodities.
- The impact if CN implements plans to remove the track and bridge at Watino.
- New investment in the region is cautious because of the uncertainty caused by changes occurring in the handling and transportation of commodities.
- There is inadequate rail competition.
- We are failing to capture competitive advantages such as using the shortest rail route from the region to west coast ports through Dawson Creek.
- There is inadequate northern input in decisions on commodity handling and transportation.

Grain Handling and Transportation Issues Raised by Northern Producers and Shippers

Below is a review of the key issues raised by Alberta Peace Region agriculture producers and shippers. The format for the review follows the main categories and sub issues as listed by the Grain Review Secretariat in its call for submissions concerning issues.

1. Accountability

- There is general consensus among Peace producers and shippers that the lack of accountability is a key issue.
- There is no mechanism to encourage all stakeholders to work together.
- A mechanism is required for objective review of costs and operations but at the same time protect business interests.
- Regulated transportation systems based on cost plus pricing tariffs tend to discourage efficiency initiatives.
- There is a need to move to a true commercial system rather than the current administrative system.
- Performance objectives for grain handling and transportation are required.
- Partly due to a lack of performance clauses, grain transportation may receive a lower priority than other commodities.
- Grain and transportation companies should be accountable for transportation costs not the CWB. Demurrage charges should be appropriate and fairly distributed.

2. System Capacity

- Concern has been raised over the lack of improvement in grain car cycle times.
- Grain companies owning Vancouver terminals using the PRG Terminal as a surge or back up facility is a concern.

3. Commercial Grain Handling and Transportation System

- Deregulation and market forces work well if there is adequate competition. However, the north and East Peace regions are captive to a single railroad. Therefore, some form of protection such as common running rights, performance clauses, etc., is required for regions with inadequate competition.
- Arbitration may be required until true competition occurs.
- Our system is not as efficient as it might be. We must be able to compete in global markets. Each of the respective components in system must be efficient, effective and accountable if the system is to work properly.
- There is a lack of cooperation, collaboration, and a collective vision of a system that could benefit all stakeholders. Anticipation of potential changes in the product mix and markets, innovative and proactive thinking is required not just reaction to historic or current events.

4. Rail Competition

The lack of adequate competition is a major issue in the Peace region.

- Concern has been raised that RaiLink has access to only one railroad at one site and that CN holds the contracts for the primary shippers.
- Shortlines do not compete against the main lines.
- The viability of shortlines needs to be ensured without subsidies. This includes access to competing main line railroads, and the ability to offer competitive incentives for example to producers who use multicar trackside loading facilities.
- If main line railroads wish to get out of branch line management than the entire branch line should be sold rather than in piecemeal.
- Product from the region has been trucked to:
  - Edmonton and reloaded on CN or CP;
  - Dawson Creek and reloaded on CN or BC Rail
  - Fort St. John to be reloaded on BC Rail
  - Directly to Prince Rupert.

  However, trucking is not a viable option for most commodities from the region, particularly for grain. Rail should be more competitive than trucking in transporting bulk commodities.
- There is a need to increase competition. Historically, railroads and grain companies have been major partners in regional economic development. If their decisions result in negative regional impacts, then regions must have the means to negate the impact of these decisions particularly by increasing competition. Monopolies or oligopolies should not expect removal of regulations governing their affairs but be permitted to use regulation to avoid or reduce competition.
- Pressure to eliminate rate caps may result in differential pricing and force grain off of branch lines and shortlines with no benefit to producers.

5. The Canadian Wheat Board

Considerable dissatisfaction has been expressed by individuals and organizations from all perspectives concerning proposed changes to the CWB.

6. Branchline Abandonment and Elevator Rationalization

Elevator rationalization is occurring in the Peace region and is of major concern for several reasons.

- All of the issues in this section identified by the Grain Review Secretariat must be addressed. Also, the impact of increased truck traffic on municipal roads, bridges, fuel usage, and highway safety and congestion needs to be considered.
- Removal of grain traffic from the RaiLink line will have an impact on RaiLink and on remaining shippers.
- **We believe that railways should be able to continue to initiate the process for track abandonment. However, CN's plans to remove the track and bridge at Watino must be delayed until the inquiry recommendations have been reviewed and acted upon.**
- Market forces should determine the number of large throughput elevators.
- There may still be a need for strategically located small elevators to handle specialty crops, small or odd lot loads.
- The role and viability of multicar producer loading sites needs to be reviewed.

7. Car allocation

- Car allocations must be fair and efficient and provide safeguards for producer cars and nonadministered products.
- There is a lack of performance clauses for all stakeholders involved.
- There is some concern that grain companies can increase car allocation to high throughput elevators with the intention of forcing closure of smaller elevators without adequate compensation to producers for increased trucking costs.

8. Hopper Car Ownership

Depending on who owns the cars, pressure on small shippers could increase making it difficult to obtain cars.

9. Thunder Bay and St. Lawrence Seaway

- Statistics are not readily available and this may be an indication of the lack of an acceptable level of information about the grain handling and transportation system. Little Peace grain is shipped via this route with the exception of flax. There may need to be an analysis to determine if:
  - The system's capacity for shipping to western ports is adequate.
  - Grain is shipped the most efficient and direct route to markets and ports.
- There is a need to evaluate north/south routes not just east/west routes.
- Multiple ports should be kept to ensure security and flexibility but need to be competitive without subsidies.

10. Efficiency

- *This issue is of major importance to the Peace region.* The current transportation routes and system are not capturing advantages of the Watino route and the Port of Prince Rupert.
- The main issues are:
  - Shipping via Watino, Dawson Creek and Prince George is the shortest route to Prince Rupert. It is not used and CN plans to remove the section of track at Watino.
  - Rates for grain from the North and East Peace are currently calculated as if the Watino Bridge route is in service even though grain is shipped via Edmonton. These grain rates are regulated to the year 2000. If future rates are distance based, shipping costs could increase for grain from the North and East Peace.
  - Research shows that routing traffic to Prince Rupert via Dawson Creek indicates costs could be reduced by more than $5.00 to $6.00 per tonne depending on the commodity and place of origin.
  - It is recognized that the Watino-Prince George route has track and other limitations. However, a large impediment historically is the failure of BCR and CN to determine a revenue-sharing formula that provides acceptable returns to both carriers.
  - The Watino route allows the North Peace to be linked with the rest of the Peace region.
  - It could serve as an alternate route in the event of disruptions on other lines.
- There is concern that efficiency gains in the system such as the consolidation of grain elevators will not be passed on to producers while at the same time their trucking and other costs will increase.
- Will consolidation incentives to producers continue or just until small local elevators close?

11. Miscellaneous

- There is concern that northern producers may be negatively impacted if some proposals to have seasonal movements to reduce shipments on difficult lines were to be implemented in the region.
- There is a lack of access to container cars for the region.

Conclusions

We have reached several key conclusions:

- The Peace region is large and exports most of its product. Markets are distant and there is a lack of rail competition.
- Access to an affordable and efficient handling and transportation system is vital if we are to compete.
- The route to Prince Rupert via Watino has advantages of proximity and efficiency for the Peace region but track at Watino is scheduled for removal.
- North and East Peace grain rates are currently based on the use of the Watino Route and may increase if rates become based on the actual distance traveled.
- Multiple changes in the transportation and handling system are occurring in the region.
- We need to have a collaborative and coordinated approach of all stakeholders in the grain handling and transportation system.

Recommendations

Recommendation #1

That the Grain Review Secretariat encourage the Federal Government to immediately place a moratorium on all plans to remove the track and bridge at Watino.

We believe that it would be premature to carry out any plans to remove this section of track or other infrastructure prior to the completion and review of the Grain Review Secretariat recommendations. We must remain flexible and keep our options open to take advantage of potential opportunities.

Recommendation #2

That the Grain Review Secretariat consider the needs of the Alberta and British Columbia Peace Regions as a whole.

It is important to recognize the significant volumes of all commodities produced in the entire Alberta and BC Peace region. Efficiencies can result if northern shippers and carriers from across the region work together.

Appendix

Transportation - A Vital Link

The economy of the Peace region of Alberta and British Columbia is based on commodities of which the bulk is exported.

The region's distance from markets and the nature of its products make it dependent on rail and port infrastructure. Therefore, access to an affordable and efficient handling and transportation system is extremely important to the region.

In a State of Transition

The regional transportation system is dynamic. Major changes are under way. These changes represent significant risks and opportunities:

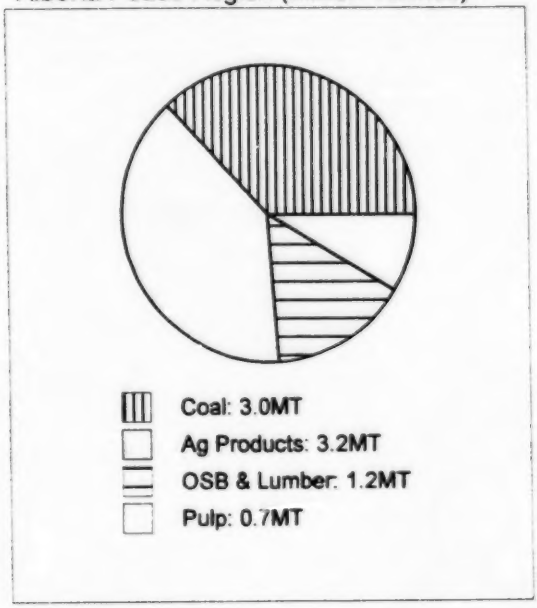
- RaiLink has purchased the CN line from Smith to Hay River (see map on page 5 of the Appendix). This has introduced new dynamics in transportation services to the region.
- Major grain companies have either built large throughput elevators at Rycroft or announced their intention to do so. These companies have indicated that these elevators could handle all of the Peace grain production and that they intend to attract grain to these elevators from an area including Watino to the BC/Alberta Border and north to Fort Vermilion.
- CN has announced its intention to remove the Watino Bridge and 25 miles of track next to the bridge. This will prevent any rail traffic from North and East Peace from using Watino and linking up to elevators at Rycroft.
- Grain rates, currently calculated as if the Watino Route was used, may be increased after the year 2000, particularly if the bridge is removed.

The Peace Region in Context

Alberta Peace Region

The Alberta portion of the Peace region produces 8.1 million tonnes of product annually. The region has enormous potential for further economic development. There are many resource development and value-added opportunities.

Estimated Annual Volume Produced in the Alberta Peace Region (Million Tonnes)



Source: Position Paper on the: Northwest Transportation Corridor Potential, Prepared by the Northern Development Branch, 1996.

British Columbia Peace Region

Including the BC portion of the Peace region in this discussion of transportation issues is important. Production in that portion has a significant impact on transportation. It produces 8.7 million tonnes of product annually.

The map below highlights the key sites in Alberta for grain elevators, agriculture processors, coal mines and forestry mills.

The Peace Region - Export Oriented

Importance of Exports

Unlike other regions, which sell a significant share of local products to local markets, the Alberta and BC Peace regions ship more than 80% or about 14 million tonnes of its production.

Destination of Exports

Alberta Peace products are shipped to both domestic and offshore markets. BC Peace region grain, pulp and coal are generally exported offshore.

Agricultural Products
Statistics on volumes and destinations are not readily available. The following table compares grain shipments from the Alberta Peace region to shipments from other parts of Alberta. The Peace region is closer to Prince Rupert than to Vancouver, but in 1992 it shipped a smaller percentage to Prince Rupert than Northeast Alberta. Although the table is dated, it is suspected that the trend of shipping patterns remain with the exception of decreased product (apart from flax) going through Thunder Bay. This analysis also is an indication of the need for better and more transparent information.

Table 1
Alberta Grain Shipments Via Ports, 1992

Crop District	Vancouver	Prince Rupert	Thunder Bay
Edmonton - Red Deer	77%	12%	11%
NE Alberta	58%	29%	13%
NW Alberta	68%	18%	13%

Source: Transportation Development in Northwestern Alberta, Toma & Bouma Management Consultants In Association with G. Seddon & Associates Ltd. 1995

Elevators at Dawson Creek and Fort St. John are attracting increasing amounts of Alberta grain and Canola.

Coal
Smoky River Coal at Grande Cache ships coal on CN to Vancouver. Mines just south of the Alberta Peace region are also served by CN. They ship an additional 7.3 million tonnes. Production from BC's Bullmoose and Quintette mines (6.2 million tonnes) goes to Prince Rupert via BC Rail and CN.

Forest Products
Only 10% of Alberta's OSB and lumber and 40% of the pulp go offshore, mainly through Vancouver. British Columbia Peace region produces 1.2 million tonnes of forest products. Specific information per company operating in the BC Peace region is not available, but the province as a whole ships 75% of its forest products to domestic markets and 25% offshore.

Sulphur
Alberta Peace region sulphur is shipped by truck for processing outside the region. Sulphur from Dawson Creek is shipped to Vancouver for offshore markets.

Transportation System

Modes of Transport

Rail

CN Rail virtually is the only transportation provider for Alberta Peace region products.

CN - RaiLink

RaiLink has recently purchased CN's line from Smith to Hay River and interchanges with CN Rail at Smith. This line serves the East and North Peace and the N.W.T. However, CN holds all of the primary contracts with shippers.

CN is the only rail system operating in the Alberta South Peace region and interchanges with its own main line at Swan Landing and with BC Rail at Dawson Creek.

CP Rail

CP Rail can spot cars on lines serving the region. However, this rarely occurs. CP has no personnel, facilities or equipment dedicated to or stationed in the region. CP Rail has been serving the area through intermodal operations located in Edmonton.

BC Rail

BC Rail approaches the Northwest Alberta border at Dawson Creek, Ft. St. John and at Fort Nelson. The option of using BC Rail has a number of limitations:

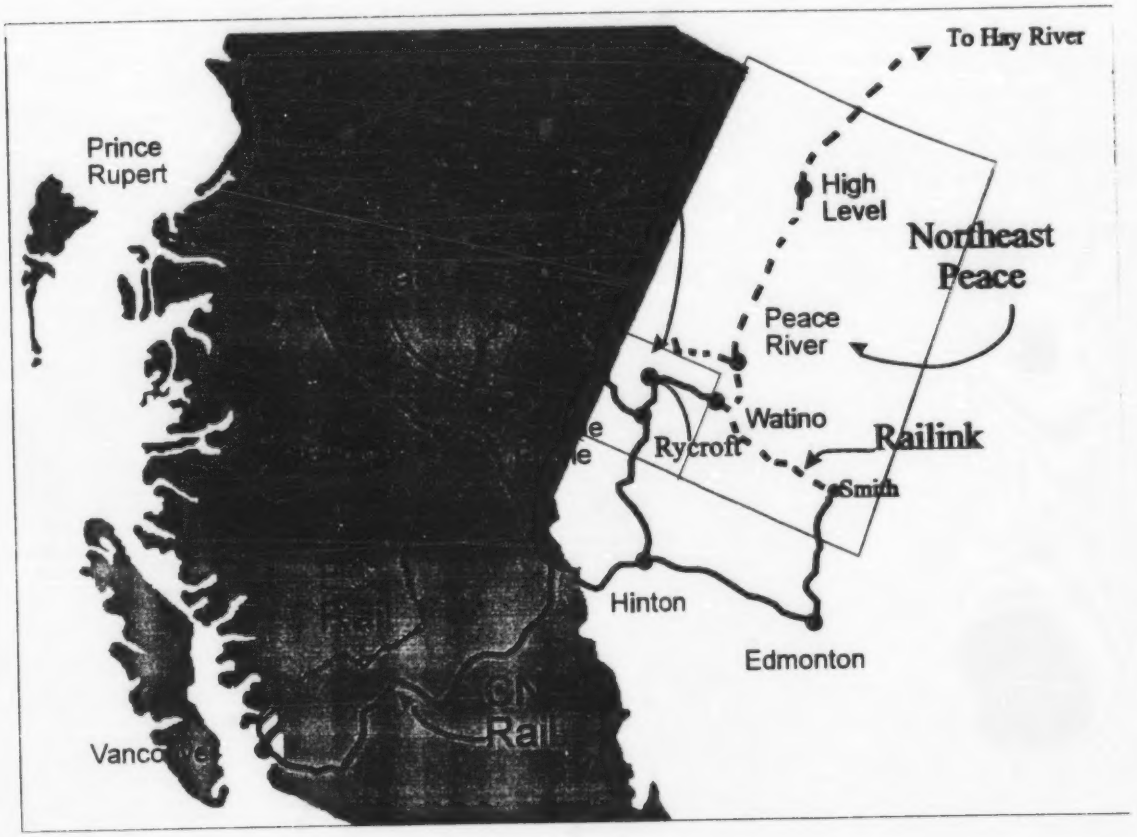
- BC Rail is limited to operations in BC.
- Interchange agreements with BC Rail and CN at Prince George have improved but the lack of improved interchange agreements at Dawson Creek is of concern.
- CN's line from Grande Prairie to Dawson Creek must be upgraded.
- BC Rail's line from Dawson Creek to Chetwynd has operating constraints.
- A connecting road from Rainbow Lake, Alberta to Fort Nelson BC would have to be built to allow intermodal options.

Of the 14 million tonnes exported from the Alberta and BC Peace Region, 12.7 million tonnes are shipped by rail. Almost 12 million tonnes are shipped to west coast ports. To put this in context, the entire Peace region exports equal the total tonnage sent through the Prince Rupert Port.

Truck

Approximately 1.3 million tonnes of grain and forest products are trucked out of the region annually. Trucking is an option for commodities with lower bulk volumes, higher unit values, and for products with many load and unload locations. A significant portion of lumber and OSB is trucked, either to Edmonton to be reloaded on rail, or directly to markets in Canada and the US. Some products are trucked to Dawson Creek to be loaded on BC Rail. Some grain producers have trucked their product directly to Prince Rupert.

Rail Routes to Vancouver and Prince Rupert from the Peace Region



RaiLink ----- CN —— BC Rail

Rail Routes and Interchanges

The map above shows the routes for RaiLink, CN and BC Rail to Vancouver and Prince Rupert from the Peace region. Key points are:

- CN is proposing to abandon the section of track at the Watino Bridge.
- The map shows interchange points at Smith, Dawson Creek and Prince George between the railroads. These interchanges increase the complexity of the system.
- Any product shipped from Dawson can be shipped by BC Rail or CN.
- Commodities exported from the Northeast Peace region must be routed through Smith to Edmonton. Commodities from the South Peace and Grande Cache are routed to CN's main line at Swan Landing (west of Hinton).

The Watino Option

Current Situation

CN has completed the legal requirements to abandon this section of track. The approaches to the bridge are prone to slumping. CN has not operated trains over the line for approximately eight years. Some reports indicate that the cost to repair approaches to the bridge is $2-3 million. Additional maintenance expenses of approximately $150,00 annually were also reported. Additional capital investment could be required within five years to develop a longer term solution to land slumping. CN's position has been that it is more efficient to take rail traffic to Edmonton, make up trains and ship on their main line.

The Advantages

The route over the Watino Bridge is of strategic importance to the Peace region, particularly the Northeast Peace region because:

- The location and advantages of the route to Prince Rupert present opportunities for the Peace region.
- The shortest and least congested rail route to west coast ports will be lost if the Watino route is abandoned.
- Grain rates are currently regulated until the year 2000 as if the Watino route was used. Lower freight costs may be possible if shipping goes directly west through Watino, especially if grain tariffs become distance based.
- Theoretically, 2.1 million tonnes could be shipped from the North and the East Peace regions on this route. The failure to capture costs savings and advantages has a significant economic impact on the region.
- There is potential to consolidate products, form solid and unit trains in the region, and increase access to containers for forestry, dehydrated alfalfa and compressed hay products.
- There is potential for additional freight due to expanding forest products and other sectors.
- The route is an alternative should southern routes be temporarily closed.
- The Prince Rupert Port has advantages including an excellent harbour. The Prince Rupert Grain (PRG) Terminal's loading capacity is double that of any Vancouver grain terminal. Turn around time for grain cars is shorter at the PRG Terminal.

Table 2 shows the rail miles to Vancouver and Prince Rupert from selected Peace region communities.

Table 2: Rail Miles to BC Ports

Miles To Vancouver Routed Via:			
Origin	**Hinton**	**Edmonton**	**Dawson Creek**
High Level	**1180**	1287	**1198**
Rycroft	**848**	NA	**866**
Miles To Prince Rupert Routed Via:			
Origin	**Hinton**	**Edmonton**	**Dawson Creek**
High Level	**1365**	1452	**1188**
Rycroft	**1032**	NA	**857**

The shaded blocks denote rail mileages to port using Watino. These routes are shorter than the routes currently in use.

The table highlights some key issues:

- Contrary to common perception, Vancouver does not have a distance advantage over Prince Rupert for the Peace Region.
- Serious consideration should be given to products destined for Prince Rupert should be shipped via Watino and Dawson Creek.

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